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Sustainability in Food Retailing

Corporate Social Responsibility in Practice – REWE and Fairtrade

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List of Abbreviations

| | |
|----------|---|
| BASF | Badische Anilin- und Soda- Fabrik |
| BMU | Bundesministerium für Umwelt, Naturschutz und Reaktorsicherheit |
| BMZ | Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung |
| CEO | Chief Executive Officer |
| CSR | Corporate Social Responsibility |
| DAWS | Dutch Association of Worldshops |
| e.V. | eingetragener Verein |
| EFTA | European Fair Trade Association |
| FABI | fairste Azubis |
| FLO | Fairtrade Labelling Organizations International |
| FLO-CERT | Fairtrade Labelling Organizations for Social Certification |
| FTAO | Fair Trade Advocacy Office |
| GEPA | Gesellschaft zur Förderung der Partnerschaft mit der Dritten Welt mbH |
| GG | Grundgesetz |
| GmbH | Gesellschaft mit beschränkter Haftung |
| IFAT | International Federation of Alternative Trade |
| ILO | International Labour Organization |
| ISEAL | International Social and Environmental Accreditation and Labelling Alliance |
| NEWS | Network of European Worldshops |
| REWE | Revisionsverband der Westkauf Genossenschaften |
| VENRO | Verband Entwicklungspolitik Deutscher Nichtregierungsorganisationen |
| WCED | World Commission on Environment and Development |
| WFTO | World Fair Trade Organization |

Abstract

This paper gives a practical approach to the area of business ethics, in particular to Corporate Social Responsibility (CSR), via analyzing how the retail chain REWE shows its commitment to its social responsibilities as defined by the four-part model of CSR. As Fairtrade offers one way for fulfilling social responsibilities, in particular the ethical and philanthropic responsibilities of CSR, REWE's participation in selling Fairtrade products is analyzed. This analysis is conducted by applying the criteria for receiving the Fairtrade Award to REWE which allows drawing conclusions about REWE's commitment to Fairtrade. Information for this assessment is taken from publicly available sources as well as from personal communication with the Fairtrade organization TransFair.

The paper further gives an indication about the match between REWE's communication - as the selling of Fairtrade products is communicated via REWE's sustainability program - and REWE's action concerning social responsibility, expressed by its commitment to Fairtrade. Implementing a sustainability program is one way for companies to exercise CSR and thus the analysis conducted concerning REWE's commitment to Fairtrade is an attempt to answer the question whether companies' communication about their CSR efforts matches their actions.

1 Introduction

On the 18th of June 2008 nearly 800 leaders in the food retail, manufacturing and supply industries met in Munich for the 52nd World Food Business Summit which was themed: *“Growth and Sustainability – Building Profit with Responsibility.”*¹ Among the speakers was Alain Caparros, the Chief Executive Officer (CEO) of the Revisionsverband der Westkauf Genossenschaften Group (REWE Group), who stressed that it is important for retail and industries to change the fundamental aspects of business quickly in order to survive. He also pictured a new type of competition which is not based on a price, but on trust. Consumers expect retail companies to offer them more than just low price goods, *“they want ‘fair’ prices and ‘fair trade.’”*² Therefore, it has become even more important for companies to act responsibly and communicate it by finding ways to gain consumer trust and to satisfy consumer needs for ‘fair trade’.

However, showing responsibility is not only important from a marketing perspective, but also from an ethical one as the fundamental claim of business ethics states that companies need to take responsibility.³ Within this field of study various concepts about responsibility have evolved. One concept that especially focuses on what types of responsibility corporations have is called "Corporate Social Responsibility" (CSR). Under the umbrella of CSR, companies worldwide, but also in Germany, implement codes of conduct⁴ in their business practices, engage in stakeholder dialogue⁵ or establish sustainability programs.⁶ The latter has also been implemented by REWE Group who wants to be a role model in the field of sustainability.⁷

The commitment of REWE Group to social responsibility is strongly communicated on their webpage as well as in their monthly magazine ‘echo – Magazin der REWE Group’. REWE applies an extensive sustainability program concerning their products, energy consumption, employees and social involvement.⁸ One part of that program is the selling of Fairtrade products, which fulfills customer’s claim for fair trade. Alain Caparros has also stated during his speech at the World Food Business Summit, that the approach of delivering ‘fair prices and ‘fair trade’ *“should be a business-defining attitude, and not just a marketing gag.”*⁹ Thus, REWE strongly communicates its involvement in social responsibility, in the form of its sustainability program, which is a practical example of exercising CSR. However, one might

¹ Cies: The Food Business Forum, 2008a.

² Cies: The Food Business Forum, 2008b.

³ Cf. Göbel, 2006, p. 99.

⁴ Cf. HOCHTIEF, 2011.

⁵ Cf. BASF – The Chemical Company, 2011.

⁶ Cf. REWE Group, 2011m.

⁷ REWE Group, 2011j, p. 9.

⁸ Cf. REWE Group, 2011m.

⁹ Cies: The Food Business Forum, 2008b.

wonder if what REWE communicates about acting responsibly, especially in regards to Fairtrade, and what they actually do, is the same.

REWE's claim of acting responsibly will be analyzed in regards to them actually doing what they communicate by looking at their commitment to Fairtrade. This analysis focuses on Fairtrade to evaluate REWE's communication of responsibility. It should be noted that a complete evaluation of their action concerning realizing responsibility is not strived for.

REWE's commitment to Fairtrade is going to be evaluated by taking the criteria for receiving the Fairtrade Award, which is handed out annually by TransFair. As REWE sees itself as a role model in the field of sustainability, to which Fairtrade belongs, striving for this Award would support REWE in its endeavor, since the Award provides a forum for discussing exemplary work in the field of Fairtrade.¹⁰ Whether or not a company receives the Fairtrade Award mainly depends on their commitment concerning Fairtrade.¹¹ Therefore, applying the criteria for the Award to REWE should provide an indication for REWE's commitment to Fairtrade. For this application, information has been taken from publicly available sources, including REWE's monthly magazine 'echo'. TransFair also provided information by answering some questions concerning the criteria. At the point of time when the analysis was conducted (November 2011) an interview with REWE was asked for, but due to time constraint, REWE could not give an interview. Therefore, no first-hand information on the behalf of REWE is available. It should be noted that the analysis is based on data from 2011, but was partly updated.

The analysis starts by giving a short definition and by outlining the importance of business ethics. Within this section the questions of company's social and moral responsibility will be addressed and the concept of "Corporate Social Responsibility" is described.

Fairtrade, as a way to take responsibility and a form of ethical trade will be introduced and defined next. Portraying the Fairtrade supply chain and outlining the standards of Fairtrade and the certification process provides the basis for understanding Fairtrade. Since many organizations engage in Fairtrade, the three major ones in Germany - Gesellschaft zur Förderung der Partnerschaft mit der Dritten Welt mbH (GEPA – The Fair Trade Company)¹², TransFair e.V. and the Fairtrade Labelling Organizations International e.V. (FLO) - will be characterized, whereby a special focus is put on TransFair, as they hand out the Fairtrade Award. The chapter concludes with a critical view on the Fairtrade system.

¹⁰ Fairtrade Deutschland, 2011h.

¹¹ FairtradeDeutschland, 2010a.

¹² GEPA changed its corporate design in 2007 from gepa – Fair Handelshaus to GEPA – The Fair Trade Company (cf. GEPA, 2007, p. 2). In the analysis only the term 'GEPA' will be used when talking about this company, as this is also what GEPA does on its webpage (cf. GEPA, 2012).

The fourth part focuses on REWE and its participation in Fairtrade. REWE is being introduced as a part of REWE Group. Since CSR at REWE is expressed through its sustainability program, a brief overview about that program will be given, followed by the specific focus on Fairtrade, being part of that program. Then the criteria for receiving the Fairtrade Award are applied to REWE. An evaluation of the findings finalizes this part.

In the last chapter general conclusions about REWE and its CSR efforts will be drawn. An outlook on the topic of CSR does not only focus on REWE but also on corporations in general.

2 Business Ethics and Corporate Social Responsibility

Back in the 90's, many people wondered if business ethics was just a fad. In fact in 2007, a famous business writer for Fortune Magazine wrote an article claiming that business scandals like the Enron scandal belong to the past and that business has changed. One year later, however, he was proven wrong. The collapse of the financial system in the US in 2008 did not only cause huge problems to the US economy, but also to other economies worldwide. Most of the activities that lead to the crisis were not against the law, but unethical and the contrary of ethical principles like responsibility and fairness.¹³

In the following part the importance of business ethics as well as company's social and moral obligations are addressed and illustrated by outlining the concept of CSR.

2.1 Importance of Business Ethics

For the purpose of understanding the further discussion it is important to define business ethics.

Business ethics *“is concerned with morality and fairness in behavior, actions and practices that take place within a business context. [...] Business ethics is the study of practices in organizations and a quest to determine whether these practices are acceptable or not.”*¹⁴

Having defined business ethics, however, does not provide an insight into why this field of study is important. *Crane and Matten* (2010, pp. 9-13) stated that companies have realized that being ethical might also be good for business, and have provided eight reasons for the importance of business ethics:

¹³ Cf. Treviño and Nelson, 2011, pp. 2-4.

¹⁴ Buchholtz and Carroll, 2011, p. 235.

| | |
|---|---|
| 1 | Business ethics contributes to understanding why businesses exert great influence on the government and what this implies. |
| 2 | If businesses are being helpful to society or not is analyzed in business ethics by raising ethical questions concerning their social role. |
| 3 | Business ethics helps exploring the causes and consequences of business malpractices aiming to <i>"improve the human condition."</i> ¹⁵ |
| 4 | Business ethics clarifies the demand of various stakeholders, such as employees, customers, shareholders and suppliers, allowing businesses to meet stakeholder's expectations more effectively. |
| 5 | Sound ethical decision-making can be achieved through business ethics training. |
| 6 | Business ethics provides a means to analyze the causes for ethical violations and how for example managers can deal with such infractions. |
| 7 | Problems and benefits concerning different styles of managing ethics in organizations can be assessed with the help of business ethics. |
| 8 | Business ethics confronts people with crucial questions faced by society that not only affect people in their work life, but also outside the office. |

Table 1: Reasons for the importance of business ethics

Source: Adapted from Crane and Matten, 2010, pp. 9-13

These reasons for the importance of business ethics imply that corporations are expected to take responsibility that goes beyond delivering a certain product, employing people or paying taxes.¹⁶ Is this, however, a legitimate claim? This will be analyzed in the next section by asking whether corporations have moral and social responsibilities, and if so what these responsibilities imply.

2.2 Moral and Social Responsibilities of Corporations

It has been argued that corporations cannot be held morally responsible as a whole, because the individuals make the decisions.¹⁷ Yet, corporations act as a whole and these actions can be morally assessed. On top of that their actions affect other people. Therefore, corporations

¹⁵ Michalos, 1988, p. 1.

¹⁶ Cf. Crane and Matten, 2010, p. 46.

¹⁷ Cf. Crane and Matten, 2010, p. 48.

have a moral responsibility, yet not to the same extent as individuals.¹⁸ Which moral obligations arise from that responsibility?

De George (2010, p. 193) outlines four general moral obligations for corporations. The first one is the obligation to not harm others, especially people. This obligation mainly affects a firm's operations. The next one stems from the free-enterprise system which the corporation is depended on, thus it should appreciate the *"freedom and the values of the system."*¹⁹ The third moral obligation is referring to the fairness that corporations should exercise in their transactions as those transactions are vital for the system to survive and can include for example *"truth in advertising."*²⁰ The last obligation is to fulfill the contract, which corporations signed freely.

Thus, corporations are held morally responsible. Can corporations also be held socially responsible? If so, what are those social responsibilities?

As stated by the International Organisation of Employers (IOE) *"Business has always recognized that it has an important role in society [and that it is an] integrated part of society."*²¹ This implies for corporations, which represent a *"special way of organizing business"*²² that society expects them to serve its needs. Melé (2008, p.49) supports this reason by arguing that society has given business the license to operate and thus business is requested to serve society beyond creating wealth. He also states that *"business has power and power requires responsibility."*²³ Even in Article 14 of the 'Grundgesetz' (GG) it is stated that:

- (1) *"Property and the right of inheritance shall be guaranteed. Their content and limits shall be defined."*
- (2) *Property entails obligations. Its use shall also serve the public good."*²⁴

As businesses own property this article also applies to business activities, which shall serve the public good. Thus, there is strong evidence that corporations have some sort of social responsibility.

But does this social responsibility go beyond making a profit and complying with the law as has been questioned amongst others by Milton Friedman?²⁵ In 1970, he wrote an article called *"The Social Responsibility Of Business Is to Increase Its Profits."*²⁶ It has often been cited in discussions about corporation's responsibilities. In this article Friedman argues that

¹⁸ Cf. De George, 2010, pp. 192 - 193.

¹⁹ De George, 2010, p. 193.

²⁰ De George, 2010, p. 193.

²¹ International Organisation of Employers, 2005, p. 5.

²² De George, 2010, p. 198.

²³ Cf. Melé, 2008, p. 49.

²⁴ Bundesgesetzblatt, 1949, pp. 10-11 of 58.

²⁵ Cf. De George 2010, p.198.

²⁶ Friedman (1970), cited in De George, 2010, p.199

corporations are only expected to fulfill their legal obligations as the law represents the will of society. These obligations are the only defensible social obligations corporations have, because of their restricted nature. If being socially responsible is defined in such a narrow sense, Friedman has a point.²⁷ However, defining 'a socially responsible firm' as one that fulfills its legal responsibility by complying with the law would imply that the law embraces all expectations that society has on businesses. But, *Buchholtz and Carroll* (2011, p.34) mention three reasons for the inadequacy of the law. The first one states that there are situations which businesses face that cannot all be addressed by the law. This becomes obvious as new issues evolve constantly. Secondly, the law is not always up-to-date concerning new concepts in regards to appropriate behavior. For example, equipment previously used to establish measures for environmental contamination might be outdated, and new technology allows more exact measurements, yet the law is still based on the measures obtained with the old equipment. The last reason the authors mention refers to personal interests or political motivations that might influence the lawmakers, leading the law to reflect that, rather than appropriate ethical justifications.²⁸ Hence, it can be argued that being 'socially responsible' goes beyond what the law requires. How, then, can social responsibilities of corporations be defined and what areas does it refer to?

A concept that has been very useful in defining areas of social responsibilities for corporations is called **Corporate Social Responsibility (CSR)**.²⁹ It is important to mention that this concept has been controversial.³⁰ Yet, it is a helpful concept for analyzing social responsibilities and it has gained in importance as will be pointed out in the next section, which is dedicated to CSR.

2.3 Corporate Social Responsibility

Discussions about Corporate Social Responsibility go back to the 1920s³¹, yet it was not until the 1950s that the concept of CSR started to become more important.³² For a long time, mainly American authors, literature and conceptualizations were concerned with the concept of CSR.³³ Recently though, this concept started to influence business practices in Europe³⁴ and also in Germany, as can be read on various German web pages.³⁵ Even though the

²⁷ Cf. De George, p. 199

²⁸ Cf. Buchholtz and Carroll, 2011, p.34.

²⁹ Cf. Crane and Matten, 2010, p.51.

³⁰ Cf. De George, 2010, p.204.

³¹ Cf. Fisher and Lovell, 2009, p.296.

³² Cf. Buchholtz and Carroll, 2011, p.33.

³³ A detailed history about CSR can be found in Carroll (2008) in Crane, A., et al. (eds), 2008, pp.19-46.

³⁴ Cf. Crane and Matten, 2010, p.55.

³⁵ Cf. Federal Ministry of Labour and Social Affairs, 2011 and cf. CSR Germany, 2011.

concept of CSR may vary across countries³⁶, it is by now widely accepted and used.³⁷ What then, are the reasons for companies to participate in CSR?

The main reason, sometimes referred to as '**enlightened self-interest**', states that business shall engage in CSR for the sake of promoting its own self-interest. This implies that business can benefit from a better brand reputation, resulting in extra or more satisfied customers. Furthermore, CSR might attract new employees, who prefer to work for a socially responsible business. Another implication of CSR is a greater independence from government and fewer regulations, as companies already establish measures voluntarily in their CSR efforts. Lastly, investing in society by for example creating a better-educated and safer community can result in a stable environment. Competing in a stable environment is beneficial for businesses.³⁸ Additionally, companies participating in CSR avoid negative consequences. The argument underlying this reason states that *"proacting is better than reacting."*³⁹ This implies that taking preventative actions before a problem arises might be more practical as well as less costly.⁴⁰

So it is beneficial for businesses to participate in CSR for several reasons. But what is meant by CSR and what type of responsibilities does this concept refer to?

The **term CSR** has varying meanings⁴¹. Alone in academic literature, Carroll identifies over 25 different ways for defining CSR.⁴² The following definition given by Carroll and refined later by Buchholtz and Carroll is built on Carroll's suggested *"four-part model of corporate social responsibility"*⁴³, which is widely accepted and used.⁴⁴ The further discussion on CSR will be based on this definition:

*"The [Corporate] social responsibility of business encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organizations at a given point in time."*⁴⁵

This definition identifies four different types of responsibilities that corporations have. These are: economic responsibilities, legal responsibilities, ethical responsibilities and philanthropic responsibilities. Each of these will be looked at in turn.

Economic Responsibilities: The first social responsibility business has is an economic one. Business has been set up in society to provide jobs, produce products and generate a profit in

³⁶ An article about differences in CSR in the USA, Europe and other countries, giving reasons for these differences as well, has been written by Matten and Moon (2008, pp. 404-424).

³⁷ Cf. Buchholtz and Carroll, 2009, p. 28.

³⁸ Cf. Crane and Matten, 2010, p. 51.

³⁹ Buchholtz and Carroll, 2011, p. 42.

⁴⁰ Cf. Buchholtz and Carroll, 2011, p. 42.

⁴¹ Cf. De George, 2010, p. 200.

⁴² Cf. Carroll, 1999, pp. 268 - 295.

⁴³ Buchholtz and Carroll, 2011, p.40.

⁴⁴ Cf. Crane and Matten, 2010, p.53 and cf. Treviño and Nelson, 2011, pp. 329 - 333. Visser (2008, pp. 488 - 492) applies the CSR pyramid which is based on that definition to developing countries.

⁴⁵ Buchholtz and Carroll, 2011, p. 34.

order to at least survive. Thus, the first social responsibility of business is to work properly as an economic unit and generate enough profit to stay in business. This forms the basis for all the following responsibilities.⁴⁶

Legal Responsibilities: As the law represents the will of society, and since businesses are part of society⁴⁷, their second responsibility is to comply with the law. The society establishes the 'ground rules' for business practices, which are codified in the law. The law also reflects fair practices as society views them.⁴⁸ Thus, further discussion about social responsibility can only happen if the standards set by the law are fulfilled.⁴⁹

Ethical responsibilities: There are activities or practices that are not addressed by law, yet society expects businesses to undertake or stay away from such practices. Ethical responsibilities focus on these activities by demanding corporations to do what is right, just and fair in the eyes of consumers, employees, shareholders and the community.⁵⁰ An example provided by Eberlein and Matten is concerned with the reduction of greenhouse gas emissions in the US where not a lot of regulations on that issue exist. Yet consumers, the general public and employees put pressure on companies to establish measurements that help reducing those emissions. This has resulted in large multinational corporations (MNC) like General Motors or Ford to develop policies and practices addressing this issue.⁵¹ Ford has released a 'Report on the Business Impact of Climate Change' in which it outlines its steps taken to reduce greenhouse gas emissions.⁵²

Philanthropic Responsibilities: This last type of responsibility does not refer to responsibilities in the literal sense, because it represents voluntary activities that corporations undertake to demonstrate their goodwill or promote human welfare.⁵³ Yet, the public expects businesses to 'give back', and through this putting responsibility on business. This is the reason for companies to support local schools, sponsor sports or arts events or give money to charity.⁵⁴ Bill Gates, the founder of Microsoft, has even become a "*full-time philanthropist*"⁵⁵, by giving huge amounts of his wealth to found a charity called the 'Bill and Melinda Gates Foundation'. This foundation aims at alleviating Third World diseases such as malaria and searches for ways to improve education.⁵⁶ There are many examples of companies' commitment to philanthropic activities.

⁴⁶ Cf. Crane and Matten, 2010, p. 53.

⁴⁷ Cf. De George, 2010, pp. 198 - 199.

⁴⁸ Cf. Buchholtz and Carroll, 2011, p. 34.

⁴⁹ Cf. Crane and Matten, 2010, p. 54.

⁵⁰ Cf. Buchholtz and Carroll, 2010, p. 35.

⁵¹ Cf. Eberlein and Matten, 2009, pp. 241 - 255.

⁵² Cf. Ford, 2005.

⁵³ Cf. Treviño and Nelson, 2011, p. 331.

⁵⁴ Cf. Crane and Matten, 2010, p. 54.

⁵⁵ Corcoran, 2006.

⁵⁶ Cf. Corcoran, 2006.

All of these responsibilities form part of the total social responsibilities of businesses. This 'four-part model of CSR' gives a structure to the different types of responsibilities as well as harmonizing the economical (be profitable), legal (obey the law) and ethical demands on business, as they all form part of Corporate Social Responsibility.⁵⁷ It should be noted, however, that the model does not provide enough guidance on how to proceed when two or more responsibilities clash.⁵⁸

"The Pyramid of Corporate Social Responsibility"⁵⁹ as shown in Figure 1 is helpful in depicting the different types of social responsibilities in a graphical way.

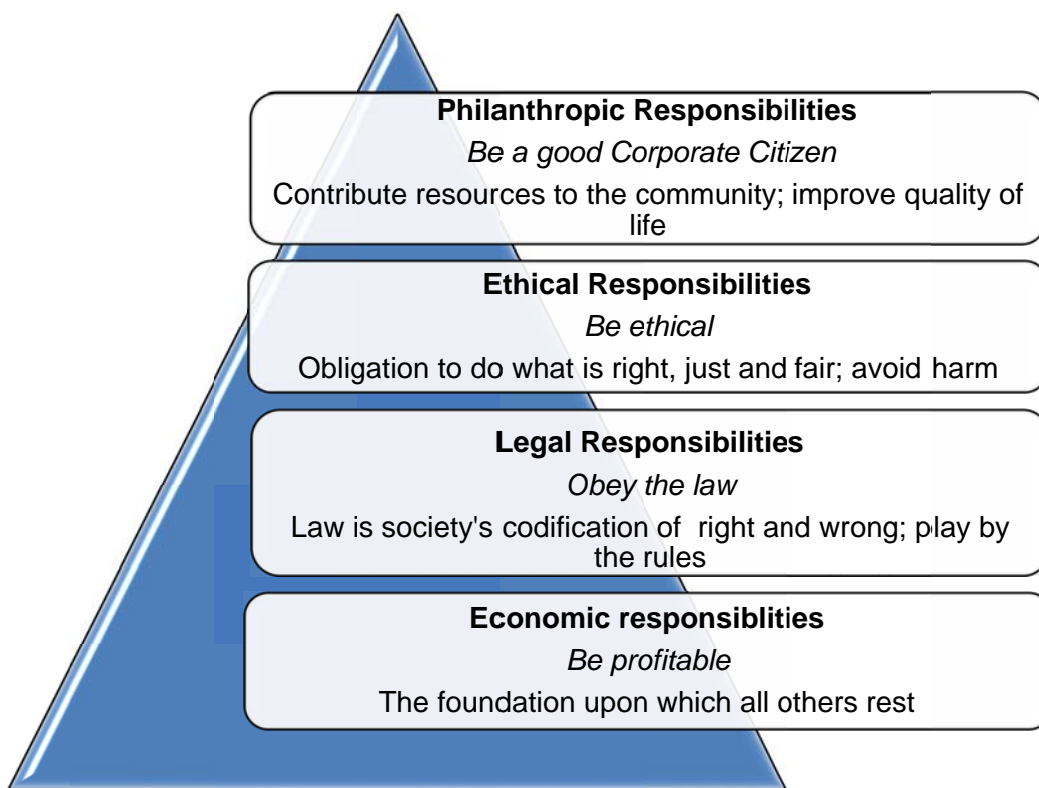


Figure 1: The pyramid of Corporate Social Responsibility

Source: Adapted from Buchholtz and Carroll, 2009, p. 45.

As can be seen in this figure, the economic responsibilities build the foundation on which the others rest. Businesses are required to obey the law in which society codifies acceptable and unacceptable practices. Furthermore, businesses are expected to behave fair and just towards their stakeholders, which is represented as the third layer of the pyramid, the ethical one. Lastly, business can prove to be a good corporate citizen by contributing to the wealth of

⁵⁷ Cf. Buchholtz and Carroll, 2011, pp. 37 - 39.

⁵⁸ Cf. Crane and Matten, 2010, p. 55.

⁵⁹ Buchholtz and Carroll, 2009, p. 45.

the community and improving quality of life. This is represented by the philanthropic responsibilities.⁶⁰ This pyramid represents a “*multi-layered concept*”⁶¹ of CSR, suggesting that the total social responsibility of businesses is made up of various components. This implies that businesses should not aim to fulfill their responsibilities step by step starting at the base, but rather that all actions businesses undertake should aim to fulfill all responsibilities simultaneously.⁶²

Fairtrade is often cited as a best practice to meet social and environmental responsibilities.⁶³ Thus, the next chapter will deal with Fairtrade.

⁶⁰ Cf. Buchholtz and Carroll, 2011, p. 37.

⁶¹ Crane and Matten, 2010, p. 53.

⁶² Cf. Buchholtz and Carroll, 2011, p. 38.

⁶³ Cf. Schaber and van Dok, 2008, p. 8.

3 Fairtrade⁶⁴

Starting as an initiative from charities in Western Europe to support economic recovery in Eastern European countries after the Second World War, Fairtrade has now become a *“market-led success story.”*⁶⁵ The sales of Fairtrade products have been rising by 10% since 2010 and global Fairtrade retail sales amounted to 4.9 billion Euros in 2011.⁶⁶ More than 6,000 Fairtrade products were available worldwide in 2009, including coffee, bananas, tea, cocoa, sugar, wine, flowers and footballs. The UK, being the largest Fairtrade market, counted over 3,000 Fairtrade products in 2009, representing a 100% rise since 2006. In 2008, about 52% of all bananas and 17% of sugar sold in Switzerland was Fairtrade.⁶⁷

In 2011, retail sales of Fairtrade products in Germany amounted to 400 million Euros, representing a growth rate of 18% compared to 2010.⁶⁸ Eighty-two per cent of all Fairtrade products sold in Germany in 2010 carried the FAIRTRADE certification mark. ‘Forum Fairer Handel’, the network for Fairtrade in Germany⁶⁹, estimated that about 10,000 Fairtrade products are available in Germany, with 8,000 being handicrafts and non-food products. Yet, groceries make up the biggest part of the total Fairtrade sales volume. Fairtrade products in Germany can be purchased in over 33,000 grocery stores, supermarkets, drugstores and discount stores as well as in over 800 worldshops, the specialist shops for Fairtrade products.⁷⁰

Just these few facts about Fairtrade, suggest that its importance in the business world has grown. So, what is Fairtrade and what are its goals? The next section will provide answers to these questions.

3.1 Definition and Goals of Fairtrade

It has been estimated that in 2005 nearly a quarter of the population living in developing countries (~1.4 billion people) lived on less than \$1.25 a day.⁷¹ Many small-scale producers, including farmers and craftsmen as well as workers on plantations or in factories in developing countries, are included in these 1.4 billion people living under such extreme poverty. Fairtrade

⁶⁴ There is a difference between fair trade and Fairtrade. Fair trade is related to general ethical trade that regards values like justice, sustainability and freedom. Fairtrade refers to trade between certain parties who have committed to several Fairtrade rules and standards. As such Fairtrade is part of fair trade (cf. Schaber and van Dok, 2008, p.18). The analysis will focus on Fairtrade and thus only this term is used.

⁶⁵ Nicholls and Opal, 2005, p. 13, pp. 19 - 20.

⁶⁶ Cf. Fairtrade International, 2012.

⁶⁷ Cf. Crane and Matten, 2010, p. 434.

⁶⁸ Cf. Fairtrade International, 2012.

⁶⁹ Cf. Forum Fairer Handel, 2011b.

⁷⁰ Cf. Forum Fairer Handel, 2011a, pp. 1 - 2.

⁷¹ Cf. Chen & Ravallion, 2008, p. 22.

is committed to help these producers and workers to get out of poverty and to build sustainable livelihoods.⁷² The poverty prevalent in developing countries is due to several **market imperfections**. These imperfections are especially problematic for farmers and include the following:⁷³

Lack of market access

Agricultural producers cannot access functioning 'free' export markets due to their remoteness and their insufficient transport possibilities. They thus rely on middlemen who buy their produce. The middlemen often work together fixing prices for producers' goods, undermining fair competition for market prices.

Imperfect information

Producers do not have information about current market prices for their products, as they have no access to telephone, radio or newspapers. They are completely reliant on the prices that middlemen pay for their produce.

Lack of access to financial markets

Farmers cannot access future markets as they lack the communication devices and trade volume that would allow them to do so. This means they cannot fix a price for next year's harvest, leaving them completely open to world price fluctuations. Their income is exposed to another risk: severe weather conditions and political unrest. Insurance exists to minimize this risk, but producers in developing countries have no access to such insurance.

Lack of access to credit

Agricultural producers have no access to fair credit markets. This could be either due to a non-existence of these markets or because the amount farmers need is too small. Thus, to buy new machines or fertilizers, farmers need to borrow money from middlemen at enormous interest rates.

Inability to switch to other sources of income generation

Agricultural producers cannot switch from one income-generating source to another, as this involves risk as well as credit and education. Due to their risk aversion, their lack of access to credit and insufficient education, switching income sources is not an option for farmers in developing countries.

Weak legal systems and enforcement of laws

Even though farmers might have a land title, they are not able to use their land as a collateral for loans, because their land title is insecure. This means that they cannot diversify their

⁷² Cf. Schaber and van Dok, 2008, p. 7.

⁷³ Cf. Nicholls and Opal, 2005, pp. 18 - 19.

products or invest in technological improvements. Local authorities in developing countries often ignore environmental and labor laws. Also local officials might receive bribes to ignore pollution and labor violations. This has a negative impact on workers.

These market imperfections prevent producers and workers from escaping poverty through conventional trade.⁷⁴ Fairtrade has established several **key practices**, to overcome the described market imperfections. The key practices in Fairtrade include:⁷⁵

Agreed minimum prices

Prices paid to producers are calculated to allow producers a wage they can live on. For *small-scale commodity production*, a Fairtrade floor price⁷⁶ is calculated by FLO. It covers production costs and allows provision of family members as well as improvements on the farm. Producers are now able to plan ahead and make investments. The price is paid by the importer of the commodity such as coffee or cocoa. If the world market price is above the Fairtrade floor price, then the importer pays the market price.⁷⁷ The Fairtrade guarantee for *hired labor*, producing e.g. tea or fruit, implies a legal minimum wage and a commitment to fulfilling the International Labour Organization (ILO) standards.⁷⁸ For producers of *handicrafts* and *textiles*, a certification process is missing. The price is therefore determined based on a regional or local context. Wholesale buyers and producers agree on a 'fair' price through dialogue. This price reflects the production costs as well as allowing socially just and environmentally friendly production.⁷⁹

Payment of a social premium to suppliers

The social premium (often more than 10% of the cost price of goods) supports technical improvements and development as smallholder producers or farm workers receive it on top of the Fairtrade floor price. They use it to implement developmental projects like building new schools. The project chosen is determined by democratic vote. Small-scale farmers organize themselves into democratic co-operatives who decide where to invest the social premium. It can either be used for community projects or to enhance their business through for example new product developments. Farm workers are required to form associations that determine the use of the social premium through voting. The premium can be used for example for housing or pension funds. Thus, Fairtrade achieves to fulfill its objective of alleviating poverty "*through trade, not aid*."⁸⁰

⁷⁴ Cf. Nicholls and Opal, 2005, pp.18 - 19.

⁷⁵ Cf. Nicholls and Opal, 2005, pp. 6 - 7.

⁷⁶ The structure of the Fairtrade floor price can be summarized by the following formula: Fairtrade floor price = cost of production + cost of living + cost of complying with Fairtrade standards (cf. Nicholls and Opal, 2005, p. 41)

⁷⁷ Cf. Nicholls and Opal, 2005, p. 6.

⁷⁸ Cf. ILO (2011).

⁷⁹ Cf. Nicholls and Opal, 2005, p. 6.

⁸⁰ Nicholls and Opal, 2005, p. 68.

Direct purchasing from producers

Cutting out brokers and other intermediaries in the global supply chain, helps producers to receive a greater portion of the final price of the goods. This is due to a reduction of margins within the value chain.

Transparent and long-term trading partnerships

Importers of Fairtrade products are required to sign long-term contracts, to provide small producers with a consistent income. Long-term trading relationships also protect producers from the negative effects of short-term buyer's bias. Producers can thus plan ahead and carry out necessary investments for developing their business.

Co-operative, not competitive, dealings

Buyer-producer relationships are based on mutual respect. This leads to higher quality products and a consistent supply, which increases customer satisfaction. It also contributes to the positioning of Fairtrade products as ethical products.

Provision of credit when requested

Importers are requested to pre-finance up to 60% of their purchase from producers as they have easier access to credit markets than small-scale producers in developing countries. This helps producers to have even income flows, as they receive money for their crops before they are exported.

Provision of market information to producers

Through Fairtrade, producers receive information about current market prices. This information helps them in negotiating the price for their crop with non-Fairtrade buyers, to whom they sell most of their produce.

Democratically organized farmers and workers

Small-scale farmers are organized into democratic co-operatives, based on one farmer, one vote. Workers on Fairtrade estate and plantations form democratically organized associations that decide about the payout of the social premium.

Sustainable production

Resource management plans must exist for all farms and co-operatives. Prohibition of special pesticides applies to all farms. Investing in organic certification is exercised by some farmers through using the social premium to do so. This also results in a higher Fairtrade floor price.

No labor abuses

Forced, as well as child labor, is prohibited. Workers must be allowed to form unions.

With operating by these key practices⁸¹, Fairtrade offers marginalized producers and workers a way out of poverty through 'fair' trade. The following table summarizes the market imperfections that affect farmers in the global South and how Fairtrade tries to address these.

| Market imperfections | Fair Trade key practices |
|--|---|
| Lack of market access | <ul style="list-style-type: none"> • Agreed minimum prices • Payment of a social premium to suppliers • Direct purchasing from producers • Transparent and long-term trading partnerships |
| Imperfect information | <ul style="list-style-type: none"> • Provision of market information to producers |
| Lack of access to financial markets | <ul style="list-style-type: none"> • Agreed minimum price • (Provision of credit when requested) |
| Lack of access to credit | <ul style="list-style-type: none"> • Provision of credit when requested |
| Inability to switch to other source of income generation | <ul style="list-style-type: none"> • (Sustainable production) • (Payment of a social premium to suppliers) |
| Weak legal systems and enforcement of laws | <ul style="list-style-type: none"> • No labor abuses • (Sustainable production) • (Payment of a social premium to suppliers) |

Table 2: Market imperfections and Fairtrade key practices

Source: Adapted from Nicholls and Opal, 2005, pp. 6-7 & 18-19.

FLO, 'World Fair Trade Organizations' (WFTO), the 'Network of European World Shops' (NEWS!) and the 'European Fair Trade Association' (EFTA) have established a discussion forum called 'FINE'⁸² that defines Fairtrade in the following way:

*"Fair Trade ['Fairtrade'] is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South. Fair Trade Organizations, backed by consumers, are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade."*⁸³

⁸¹ Cf. Nicholls and Opal, 2005, pp. 6 - 7.

⁸² The name is derived from the starting letters of the four Fair Trade organizations: FLO (Fairtrade Labelling Organizations International), IFAT (International Federation of Alternative Trade) (now: WFTO (World Fair Trade Organizations), NEWS! (Network of European World Shops), and EFTA (European Fair Trade Association) (cf. Nicholls and Opal, 2005, p.10).

⁸³ Fair Trade Advocacy Office, 2010.

Three aspects in this definition are important. First, Fairtrade is defined as a *“trading partnership [seeking] equity in international trade.”*⁸⁴ The implied injustice in international trade goes back to the market imperfections described above. To achieve equity the definition suggests *“a trading relationship based on, dialogue, transparency and respect.”*⁸⁵ The key practices of Fairtrade outlined above, provide the basis for such a relationship. Second, Fairtrade contributes to sustainable development. This is achieved through *“better trading conditions”*⁸⁶ and a protection of workers’ rights. Again, these requirements are fulfilled via the key Fairtrade practices. Third, Fairtrade seeks to change *“the rules and practice of conventional international trade.”*⁸⁷ Two factors are important to achieve this objective: Fairtrade organizations and consumers. The main Fairtrade organizations in Germany will be introduced in chapter 3.4.

To summarize, Fairtrade has three objectives:

1. *“Alleviate poverty through trade.”*⁸⁸
2. Increase the social capital of smallholder farmers and farm workers
3. Campaigning of global trade reforms and trade justice.⁸⁹

3.2 The Fairtrade Supply Chain

In the Fairtrade supply chain there are two different models. The first applies to smallholder farmers that are organized as a co-operative. The second one refers to workers on plantations. To make it tangible the banana supply chain will be taken as an example.⁹⁰

Smallholder farmers that cannot export their bananas directly (as they produce too little), will sell them to a farmer-owned co-operative. This co-operative prepares the bananas for exporting them directly, or if this is not possible selling them to an exporter. For the exported bananas the co-operative receives the Fairtrade floor price (or market price, depending on which one is higher) and the social premium from the importer. It then passes a part of the received income onto the smallholder farmers. The rest is taken to finance co-op projects.⁹¹ How much of the Fairtrade income is distributed to farmers, how much is spent for co-op

⁸⁴ Fair Trade Advocacy Office, 2010.

⁸⁵ Fair Trade Advocacy Office, 2010.

⁸⁶ Fair Trade Advocacy Office, 2010.

⁸⁷ Fair Trade Advocacy Office, 2010.

⁸⁸ Nicholls and Opal, 2005, p. 25.

⁸⁹ Cf. Nicholls and Opal, 2005, p. 25.

⁹⁰ Cf. Nicholls and Opal, 2005, pp. 92 - 93.

⁹¹ A lot of examples of co-op projects can be found on the website of Fairtrade International (cf. Fairtrade International, 2011f).

projects and what projects are going to be implemented is determined by the farmer-owners of the co-op.⁹² Figure 2 represents this process graphically.

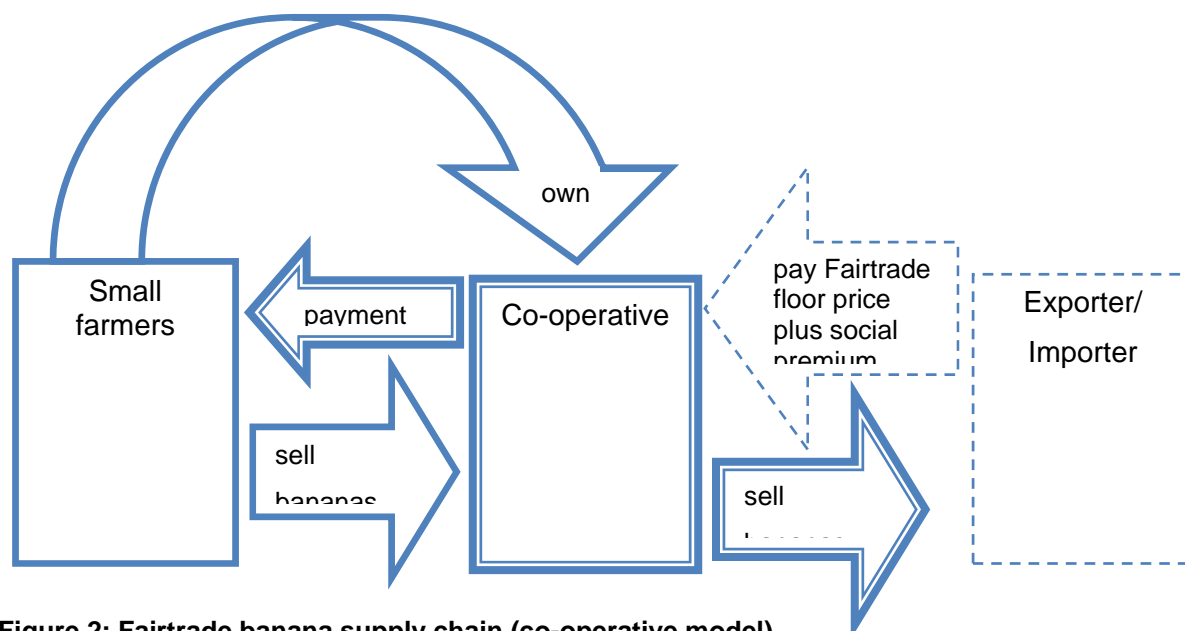


Figure 2: Fairtrade banana supply chain (co-operative model)

Source: Adapted from Nicholls and Opal, 2005, p. 93.

The second model of the Fairtrade supply chain applies to farm workers. Plantations that want to participate in the Fairtrade system must guarantee working conditions and wages fulfilling the Fairtrade standards. Importers or exporters working with these plantations, pay the Fairtrade floor price (or market price, depending on which one is higher) to the plantation. With the received earnings, the plantation can cover the costs for meeting the Fairtrade standards concerning labor and environment. The social premium, paid by the importer, goes directly to a so called 'Joint Body', and not to the plantation owner. The Joint Body is a worker-controlled group, elected by the farm workers. Its duty is to take care of the distribution of the social premium. It is used to benefit farm workers and their families and thus must be spend on community development projects. Even though the plantation management is part of the Joint Body, the majority of the votes are held by farm workers.⁹³ In Figure 3 this model is depicted graphically.

⁹² Cf. Nicholls and Opal, 2005, p.92.

⁹³ Cf. Nicholls and Opal, 2005, pp. 92 - 93.

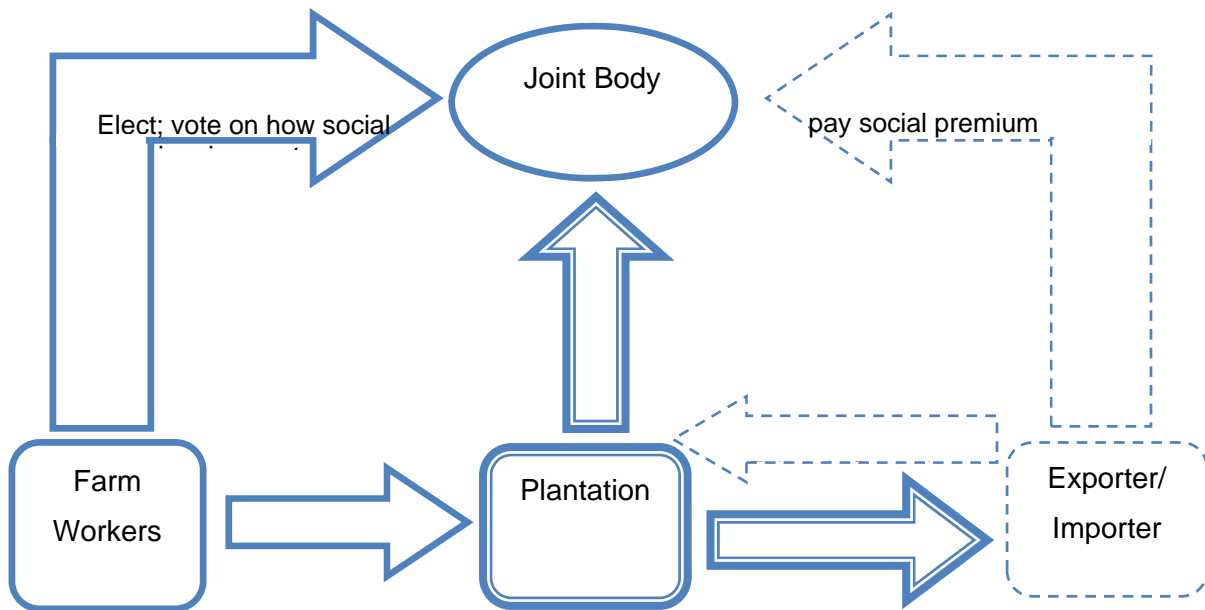


Figure 3: Fairtrade banana supply chain: plantation/farm worker model

Source: Adapted from Nicholls and Opal, 2005, p. 93.

The importers working with co-operatives or plantations can either be Fairtrade organizations like, GEPA, or conventional enterprises. Fairtrade organizations try to process and pack the imported goods in the country of origin. Through that, much of the value created by the goods should stay in the country. These organizations then sell the products to e.g. special Fairtrade shops, like worldshops. Conventional companies import certain goods that comply with the international Fairtrade standards and can thus certify them with the FAIRTRADE certification mark. These products can be purchased in supermarkets, drugstores, health-food shops or natural-food shops. Also hotels, caterers and canteens offer Fairtrade products.⁹⁴

A key role in the Fairtrade supply chain is the fulfillment of certain Fairtrade standards. Several standards and certification processes exist in Fairtrade, as the term 'Fairtrade' is still not protected by law.⁹⁵ The WFTO, for example, has established ten principles for Fairtrade organizations that have to be followed. When an organization complies with these principles it receives the WFTO logo, which certifies it as an organization that is 100% committed to Fairtrade in all its business activities.⁹⁶ GEPA is an example of such an organization.

FLO certifies products, rather than organizations.⁹⁷ It has established several standards for producers, traders and products that must be complied with before being certified as Fairtrade. When all standards are met the products receive the FAIRTRADE certification mark.⁹⁸ This mark belongs to the mostly recognized ethical labels in the world.⁹⁹

⁹⁴ Cf. Forum Fairer Handel, 2008, pp. 45 - 46.

⁹⁵ Cf. Schaber and van Dok, 2008, p. 80.

⁹⁶ Cf. DAWS, 2011, p. 16.

⁹⁷ Cf. Nicholls and Opal, 2005, p. 138.

⁹⁸ Cf. Fairtrade International, 2011g, p. 4.

⁹⁹ Cf. Fairtrade International, 2011a.



Figure 4: The FAIRTRADE certification mark

Source: Fairtrade International, 2011a.

The next chapter will first focus on standards defined by FLO and then on the certification process for receiving the FAIRTRADE certification mark.

3.3 Fairtrade Standards and the Certification Process

Fairtrade Standards

Fairtrade standards under the FLO system have been set according to the International Social and Environmental Accreditation and Labelling Alliance (ISEAL Alliance¹⁰⁰) Code of Good Practice on Standard Setting.¹⁰¹ There are generic standards for different suppliers of Fairtrade products, generic trade standards and product standards.¹⁰² These standards take the common Fairtrade principles into account.¹⁰³ The principles have been described as key practices in Fairtrade in chapter 3.1. As Table 3 shows, these practices or principles can be assigned to one of three categories.

| Category | Fairtrade key practices |
|----------------------------------|--|
| Social Development | <ul style="list-style-type: none"> • No labor abuses • Democratically organized farmers and workers |
| Economic Development | <ul style="list-style-type: none"> • Agreed minimum prices • Payment of a social premium to suppliers • Transparent and long-term trading partnerships • Direct purchasing from producers • Co-operative, not competitive, dealings • Provision of credit when requested • Provision of market information to producers |
| Environmental Development | <ul style="list-style-type: none"> • Sustainable production |

Table 3: Classification of Fairtrade principles

Source: Adapted from Fairtrade International, 2011c.

¹⁰⁰ ISEAL Alliance is a not for profit organization founded in 2002 by eight organizations. It helps establishing social and environmental standards as well as increasing their impact through discussions with companies, non-profits and the government. (cf. ISEAL Alliance, 2011.)

¹⁰¹ Cf. Fairtrade International, 2011c.

¹⁰² Cf. Fairtrade International, 2011g, p. 3.

¹⁰³ Cf. Fairtrade International, 2011c.

The classification of the principles reflects the three components of **sustainability** - economic, social and environmental. Sustainability is a concept used widely by companies, governments, consultants and pressure groups and mostly in relation to sustainable development.¹⁰⁴ The World Commission on Environment and Development (WCED) has defined sustainable development as “*development that meets the needs of the present without compromising the ability of future generations to meet their own needs.*”¹⁰⁵ Thus, sustainable development demands that present generations can meet their needs. Helping people out of poverty contributes substantially to fulfilling what sustainable development aims for. Alleviating poverty is one key objective of Fairtrade.¹⁰⁶ Therefore, sustainable development plays an essential role in Fairtrade.

Standards help to achieve the objective of erasing poverty. To develop a new standard certain procedures apply. The development begins with a request for a standard, followed by drafting the standard to finally approving the standard. A list of specific Fairtrade standards is available on FLO's webpage.¹⁰⁷

Certification process

Compliance with the defined standards is controlled by Fairtrade Labelling Organizations for Social Certification GmbH (FLO-CERT), an “*independent International Certification company.*”¹⁰⁸ FLO-CERT is accredited with the ISO 65 which “*is the leading internationally accepted norm for certification bodies operating a product certification system.*”¹⁰⁹

Compliance Criteria provide the basis of the certification process. They are the translation of the Fairtrade standards into provable control points. These serve as a means for evaluating compliance with the Fairtrade standards.¹¹⁰ When a party, e.g. a cocoa co-operative, is interested in participating in the Fairtrade system operated by FLO, they apply at FLO-CERT for certification. FLO-CERT then conducts an audit of the cocoa co-operative, to see whether they fulfill the compliance criteria. These audits can vary in length and intensity and begin with sending a letter to the co-operative. Then a meeting is organized to inform about the further procedure, Fairtrade standards, minimum prices and the social premium. To check whether the compliance criteria are met, several documents including e.g. financial and accounting documents and work plans are inspected by the auditor. He crosschecks the provided information via conducting different interviews. A site visit followed by a meeting concludes the audit. All information is then sent to FLO-CERT to be evaluated. If non-conformity with any standard exists, the co-operative is given the chance to fix this deficiency. When this has been

¹⁰⁴ Cf. Crane and Matten, 2010, p. 33.

¹⁰⁵ World Commission on Environment and Development, 1987, p. 8.

¹⁰⁶ Cf. Nicholls and Opal, 2005, p. 25.

¹⁰⁷ Cf. Fairtrade Labelling Organizations International, 2011.

¹⁰⁸ FLO-CERT, 2011d.

¹⁰⁹ FLO-CERT, 2011b.

¹¹⁰ Cf. FLO-CERT, 2011c.

carried out, an independent party not involved in the inspection and evaluation process decides on the certification. Only if all compliance criteria are fulfilled, the cocoa co-operative will be certified.¹¹¹

An importer of cocoa beans, registered with FLO (e.g. GEPA) can now purchase from that cocoa co-operative. After a contract has been agreed on by the cocoa co-operative and the Fairtrade importer in which the quantity, purchase price (which is at least the Fairtrade floor price), and delivery date is determined, both parties report independently to FLO about the exchange of goods and payment. Then the importer processes the cocoa beans and sells the chocolate mass as Fairtrade. A manufacturer for candy bars, who is licensed by TransFair, can then buy the chocolate mass. TransFair is a FLO member in Germany responsible for Fairtrade reporting and approving label usage. The importer who has processed the cocoa beans reports to FLO about the sale. The manufacturer reports to TransFair and pays a per-pound license fee for the use of the Fairtrade logo to TransFair. The manufacturer puts the Fairtrade logo on the wrapper of the chocolate bar and sells it to thousands of retailers like REWE. FLO then checks with TransFair if the quantities reported by the importer and manufacturer of the chocolate mass sale match. FLO also checks if the imported quantity of cocoa beans matches the sales figures of the cocoa co-operative. TransFair or FLO furthermore ensure that the final Fairtrade product traces back to at least the price paid to the cocoa co-operative. If this is not the case, the license for trading under Fairtrade conditions can be withdrawn or appropriate measures such as a wire transfer to the co-operative or a product recall can be taken. FLO also inspects if the cocoa co-operative has used the received premium for social development projects by checking their accounts.¹¹²

Figure 5 provides an overview of the Fairtrade network. It shows the different steps of the Fairtrade supply chain as well as pointing out where certification applies.

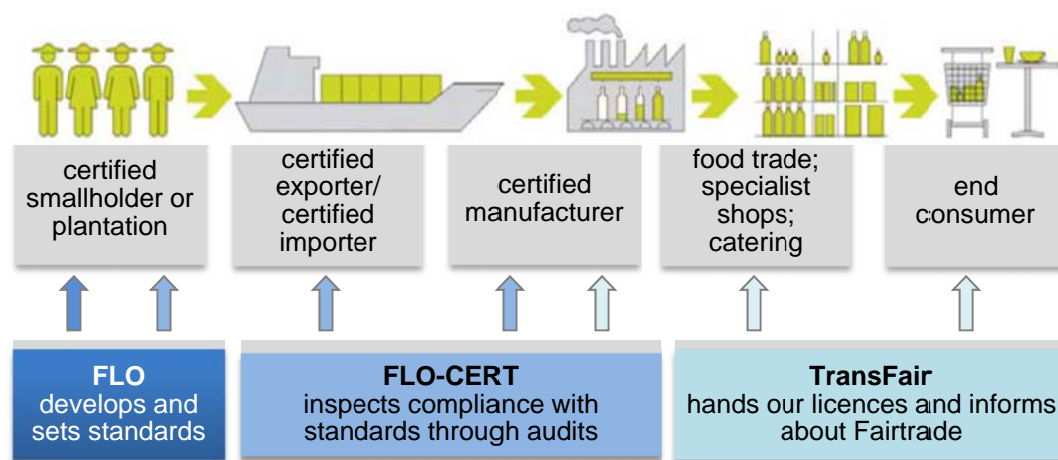


Figure 5: The Fairtrade network

Source: Adapted from Fairtrade Deutschland, 2011e, p. 4.

¹¹¹ Cf. FLO-CERT, 2011a.

¹¹² Cf. Nicholls and Opal, 2005, pp. 133 - 135.

Throughout the whole chapter different Fairtrade organizations have been mentioned. In the next part, FLO, GEPA and TransFair will be presented in more detail.

3.4 Fairtrade Organizations in Germany: FLO, GEPA and TransFair

FLO (Fairtrade Labelling Organizations International)¹¹³

FLO is a global umbrella organization consisting of 25 organizations (19 labelling initiatives, three producer networks and three marketing organizations). It was founded in 1997 in Bonn to provide worldwide standards and certification. FLO has four main tasks:

- Set standards for producers, importers, exporters and licensees of Fairtrade products.
- Support producers of Fairtrade by providing training, establishing relationships with buyers and familiarizing them with the certification.
- Provide a global strategy aiming to enhance efficiency of FLO's work and increasing their impact.
- Promote trade justice. FLO, WFTO and EFTA set up a Fair Trade Advocacy Office (FTAO) in Brussels for this reason.

FLO's mission statement summarizes its tasks: *“To connect disadvantaged producers and consumers, promote fairer trading conditions and empower producers to combat poverty, strengthen their position and take more control over their lives.”*¹¹⁴ Fulfilling this mission would also result in making FLO's vision reality, which is to help create *“[a] world in which all producers can enjoy secure, sustainable livelihoods, fulfill their potential and decide on their future.”*¹¹⁵

GEPA – The Fair Trade Company¹¹⁶

GEPA was founded in 1975, and is situated in Wuppertal. With a turnover of more than 58 million Euros in 2010/11, it is Europe's biggest Fairtrade organization. GEPA has formulated three business objectives:

- Support disadvantaged producers in the South.
- Consumer behavior shall be changed.
- Changing the structure of world trade through lobbying and advocacy.

GEPA has several trading partners in the South to achieve the set goals. The trading partners include the following: democratically organized smallholders and craftsmen, companies taking social and environmental responsibilities for their workers in agriculture and the smaller

¹¹³ Cf. Fairtrade International, 2011b.

¹¹⁴ Fairtrade International, 2011e, p.3

¹¹⁵ Fairtrade International, 2011e, p.3

¹¹⁶ Cf. GEPA, 2012.

industry, and marketing organizations dedicated to support producers. All together GEPA has 189 trading partners, from which it obtains groceries, handicrafts and textiles. The products imported by GEPA have been produced under fair trading conditions and producers are paid a fair price. To ensure this, the various trading partners have either been certified by FLO, take part in the WFTO monitoring system or fall under the EFTA monitoring system.¹¹⁷ The products can be bought in world shops, health food shops, the GEPA online shop, as well as in supermarkets, like REWE.

TransFair – Verein zur Förderung des Fairen Handels mit der „Dritten Welt“¹¹⁸

TransFair was founded in 1992 and its headquarters are in Cologne. Its objective is to support disadvantaged producer families in Africa, Latin America and Asia and to improve their living conditions through Fairtrade. In contrast to FLO and GEPA, TransFair does not seek to fulfill this goal through trading. Instead it awards products with the FAIRTRADE certification mark on the basis of a licensing agreement. Furthermore, it informs politicians, NGOs, environmental organizations, UN organizations and trading associations about Fairtrade and tries to connect them through networking. This is achieved via marketing and public relations. TransFair informs on congresses, trade fairs and trade conventions about Fairtrade. It also belongs to the organizers of several events concerning Fairtrade, including 'Faire Woche', 'Internationales Fairtrade Frühstück' or 'Fairtrade Town'. The last 'Faire Woche' was from the 13th of September until the 27th of September 2013.¹¹⁹ Within this time several events took place that promote Fairtrade. In 2011, these included e.g. presentations about Fairtrade, talks with producers of Fairtrade products or 'Kaffee.Pause.Fair', a project with the aim of drinking more than 500.000 cups of Fairtrade coffee in one day.¹²⁰ Worldshops, activist groups, supermarkets, canteens and individual persons participated by organizing the events for the 'Faire Woche'. Among them was REWE who offered tasting of Fairtrade products and thus showed its interest in Fairtrade.¹²¹

¹¹⁷ As already mentioned in chapter 3.2 WFTO, FLO and also EFTA have different standards and certification methods. Yet, they are all based on the basic principles of Fairtrade that have been defined by FLO, WFTO and EFTA and were described throughout this chapter.

¹¹⁸ Cf. Fairtrade Deutschland, 2011m.

¹¹⁹ Cf. Faire Woche, 2013.

¹²⁰ Cf. Fairtrade Deutschland, 2011d.

¹²¹ Cf. REWE, 2011b.

Table 4 gives an overview of the three Fairtrade organizations and their tasks.

| Fairtrade Organization | Tasks |
|--|--|
| FLO – Fairtrade Labelling Organizations International e.V. | <ul style="list-style-type: none"> • Set standards for producers, importers, exporters and licensees of Fairtrade products • Support producers of Fairtrade by providing training, establishing relationships with buyers and familiarizing them with the certification • Provide a global strategy aiming to enhance efficiency of FLO's work and increasing their impact • Promote trade justice |
| GEPA - The Fair Trade Company Gesellschaft zur Förderung der Partnerschaft mit der Dritten Welt mbH | <ul style="list-style-type: none"> • Import and sell Fairtrade products to worldshops, health food shops, supermarkets and via the GEPA online shop • The Fairtrade products are bought from Fairtrade certified trading partners only |
| Transfair - Verein zur Förderung des Fairen Handels mit der "Dritten Welt" e.V. | <ul style="list-style-type: none"> • Award products with the FAIRTRADE certification mark • Inform about and lobby for Fairtrade and connect organizations via networking • Promote Fairtrade by organizing events like 'Faire Woche' |

Table 4: Fairtrade organizations and their tasks

Source: Fairtrade International, 2011b; 2011e, GEPA, 2012, Fairtrade Deutschland, 2011d; 2011m

3.5 A Critical View on Fairtrade

The former chapters have outlined the establishment and the functioning of the Fairtrade system. And even though Fairtrade might be an effective way to address poverty and overcome market imperfections, it has also been criticized by several academics. Mohan (2010) points out that the Fairtrade system causes costs such as certification, inspection and the promotion of Fairtrade products, which implies that the net premium received by the producers participating in the Fairtrade system is lower than what is commonly perceived. He further criticizes the complicated entry requirements for producers who want to participate in Fairtrade, which means that it is more difficult for marginalized producers to take part in Fairtrade. The campaigning for Fairtrade by the various Fairtrade organizations seem to convey the message that free trade is inherently bad and that other labeling initiatives, who also benefit the poor, should be avoided. Mohan thus concludes that further research on the

costs and benefits of the Fairtrade system needs to be conducted and that Fairtrade should be regarded as a specialty market that helps certain marginalized producers.¹²²

Hira and Ferrie (2006) elucidate that an oversupply of certain Fairtrade products, such as Fairtrade coffee exists, as the demand for these products is not sufficient, since the market potential for Fairtrade products in Northern countries is difficult to assess. This might imply that coffee produced under Fairtrade conditions cannot be sold as such, but at the lower market price, even though Fairtrade requirements are met. Also only a few studies about the impact that Fairtrade has on farmers in the global South exist, which makes it hard to determine the real benefits for farmers participating in the Fairtrade system.¹²³ The impact studies carried out thus far deliver mixed results. Some show that Fairtrade has positively contributed to the development of the region where it is practiced, while other studies revealed an increased inequality amongst the producers participating in Fairtrade and those that are not part of the system.¹²⁴

Moore (2004) raises important questions related to the Fairtrade system concerning its limitations and downfalls. These include amongst others how 'fair' should be defined, if protectionism or a direct donation might be more efficient than Fairtrade, if Fairtrade only works, because so far the supply of Fairtrade products is marginal in scale and whether Fairtrade actually helps the most disadvantaged producers. So far, research has found differing results concerning these questions, yet further investigation is needed. He also mentions the dependency that Fairtrade organizations might create for producer organizations. Not only does the guaranteed Fairtrade minimum price lead to dependency, but also the established long-term partnership can lead to an unhealthy dependency on part of the producer organization. Moore thus suggests that Fairtrade organizations should support the establishment of various trading partnerships.¹²⁵

As outlined above, a differentiated look at the Fairtrade system is crucial to get a holistic picture of it. But despite the criticism, Fairtrade is a practical approach aiming to address issues arising from international trade and its past success has shown that Fairtrade has become more important in the business world and that it is one way to address Corporate Social Responsibility as will be seen in the next chapter.

¹²² Cf. Mohan, 2010, pp. 116-118

¹²³ Cf. Hira and Ferrie, 2006, p. 2 and Bienabe et al., 2004, pp. 64-65

¹²⁴ Cf. Ballet and Carimentrand, 2010, p.5

¹²⁵ Cf. Moore, 2004, pp.4-8

4 REWE and Fairtrade

The turnover of Fairtrade products within Germany has more than tripled from 2005 until 2010.¹²⁶ Supermarkets have strongly contributed to the exponential growth of Fairtrade products. *Schaber and van Dok* (2008, p. 44) mention two reasons why supermarkets sell Fairtrade products. Firstly, Fairtrade is perceived as a market with growth potential. Table 5 supports this reason by showing the development of retail sales of different Fairtrade products from 2003 to 2011.

| Product | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|------|------|-------|-------|-------|-------|-------|-------|-------|
| Coffee (in metric tons) | 19.3 | 24.2 | 34.0 | 52.1 | 62.2 | 65.8 | 73.8 | 87.8 | 98.1 |
| Bananas (in metric tons) | 51.2 | 80.7 | 103.9 | 135.8 | 233.8 | 299.2 | 311.5 | 294.4 | 321.0 |
| Fruit Juice (in 1,000 litres) | 2.2 | 4.5 | 4.9 | 6.3 | 24.9 | 28.2 | 45.6 | 25.5 | 38.8 |
| Sugar (cane sugar) (in metric tons) | 0.7 | 2.0 | 3.6 | 7.2 | 15.1 | 57.0 | 89.6 | 127.1 | 138.3 |
| Tea (in metric tons) | 1.5 | 2.0 | 2.6 | 3.9 | 5.4 | 11.5 | 11.5 | 12.4 | 13.4 |
| Cocoa (cocoa beans) (in metric tons) | 2.7 | 4.2 | 5.7 | 8.0 | 7.3 | 10.3 | 13.9 | 35.3 | 40.2 |
| Honey (in metric tons) | 1.2 | 1.2 | 1.3 | 1.6 | 1.6 | 2.1 | 2.1 | 2.1 | 2.0 |

Table 5: Retail sales of Fairtrade products (2003 - 2011)

Source: Adapted from Fairtrade International, 2011d.

The second reason Schaber mentions is that by selling Fairtrade products, supermarkets can express their efforts concerning CSR.¹²⁷

Offering Fairtrade products has further advantages for supermarkets. First, supermarkets can distinguish themselves from their competitors by offering Fairtrade products.¹²⁸ Co-op Food, for example, has been selling Fairtrade products for many years and through that, it positioned itself as a “*responsible retailer*.”¹²⁹ Second, supermarkets can gain new customers as the demand for ethical products, to which Fairtrade products belong, is rising. Last, a better reputation and image may also result from participating in Fairtrade. Customers may assume that supermarkets offering Fairtrade products conform to the Fairtrade standards in all their

¹²⁶ Cf. Forum Fairer Handel, 2011a, p. 2.

¹²⁷ Cf. Schaber and van Dok, 2008, p. 44.

¹²⁸ Cf. Nicholls and Opal, 2008, p.102.

¹²⁹ Cf. Smith, 2008, p.289.

business activities. This phenomenon is sometimes referred to as “*fairwashing*.”¹³⁰ It suggests that supermarkets might participate in Fairtrade out of pure marketing purposes.

REWE, a member of REWE Group, offers Fairtrade products and they communicate their participation in Fairtrade on their webpage. Alain Caparros, the CEO of REWE Group said at the 52nd World Food Business Summit, that offering ‘fair trade’ “*should be a business defining-attitude and not just a marketing gag*.”¹³¹

Therefore, it will be analyzed in the next sections if what REWE communicates about their participation in Fairtrade conforms to their actions concerning Fairtrade.

4.1 REWE as Part of REWE Group

REWE Group is one of the leading tourist and trading firms in Europe with a turnover of nearly 50 billion Euros in 2012. It is active in 13 countries and employs 327,600 people. The majority of the turnover (nearly 36 billion Euros) is accounted to sales lines based in Germany. These sales lines include supermarkets (REWE, REWE Center, REWE City), discount retailers (PENNY), self service department stores (toom), power stores (toom Baumarkt, B1 Discount, Baumarkt, ProMarkt), travel agencies (ATLASREISEN, DER Reisebüro, DERPART) and tour operators (ITS, JAHN REISEN, TJAEREBORG, DERTOUR, MEIER'S WELTREISEN, ADAC REISEN).¹³² REWE Group has assigned each of these sales lines to one of its seven business units. The business units are: ‘full-range national’, ‘full-range international’, ‘discount’, ‘specialist stores national’, ‘business to business’¹³³, ‘travel and tourism’ and ‘others’.¹³⁴ ‘Full-range national’ is REWE Group’s business unit with the highest turnover. In 2012, its turnover amounted to more than 15 billion Euros.¹³⁵ This business unit is divided into six regions: North, East, West, South, South-East and Center.¹³⁶ The sales brands belonging to this business unit are: REWE, toom consumer market and beverage shop, nahkauf, REWE to go, TEMMA, Kaufpark and akzenta. REWE supermarkets contribute fundamentally to the growth of REWE Group.¹³⁷ In this analysis the term ‘REWE’ and the business unit ‘full-range national’ will therefore be used interchangeably.

¹³⁰ Nicholls and Opal, p. 102.

¹³¹ Cies: The Food Business Forum, 2008b.

¹³² Cf. REWE Group, 2013, pp.4-5 & 26.

¹³³ REWE Group sold its B2B unit at the beginning of 2011 (cf. REWE Group, 2011n.)

¹³⁴ An overview of the sales structure of REWE Group can be found in their business report (cf. REWE Group, 2013).

¹³⁵ Cf. REWE Group, 2013, p. 32.

¹³⁶ Cf. REWE Group, 2011 g, p.74

¹³⁷ Cf. REWE Group, 2013, pp. 31-32.

REWE is organized as a cooperative, consisting of self-employed businessmen and several chain stores, which are coordinated via the headquarters of REWE Group in Cologne.¹³⁸ REWE as part of REWE Group follows the strategic direction determined by REWE Group. In 2007, they developed a new business strategy focusing on five main areas. One of these areas requires adherence to the company's sustainability principle and to its societal and ecological responsibilities.¹³⁹ For this reason, REWE Group has developed and implemented a sustainability program. In the next part this sustainability program will be presented and linked to CSR as outlined in chapter two.

4.2 REWE and CSR: REWE's Sustainability Program

REWE Group, as one of the biggest employers in Europe has power, and thus, as argued in chapter two, is expected to take social responsibility. In 2008, REWE Group established an overall concept, including a vision and mission statement as well as six basic principles that apply to all members of REWE Group.¹⁴⁰ The sixth principle shows that REWE Group is aware of its social responsibility as they state: *"We recognise our responsibilities and act sustainably!"*¹⁴¹ To live up to that principle an extensive sustainability program was implemented at REWE Group. REWE, being a member of REWE Group, follows their strategic direction, and hence implemented a sustainability program that is very similar to the one that REWE Group communicates on their webpage.¹⁴² Figure 6 gives a short overview of REWE's sustainability program.

¹³⁸ Cf. REWE, 2011a.

¹³⁹ Cf. REWE Group, 2011a.

¹⁴⁰ Cf. REWE Group, 2011c, p. 52.

¹⁴¹ REWE Group, 2011i.

¹⁴² Cf. REWE Group, 2011m.

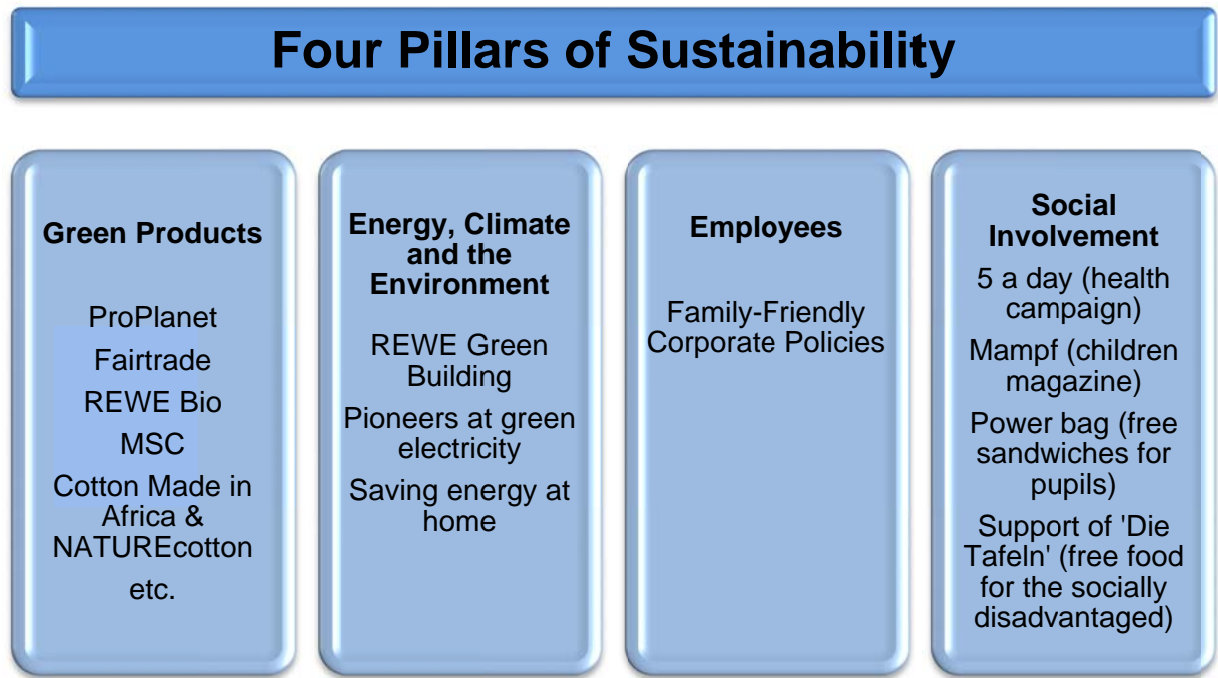


Figure 6: REWE's sustainability program

Source: Adapted from REWE, 2011d.

This program expresses how REWE fulfills its CSR as defined in chapter two: *“The [Corporate] social responsibility of business encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organizations at a given point in time.”*¹⁴³

The economic responsibility REWE has is to stay in business by generating enough profit. REWE's turnover in 2012 amounted to more than 15 billion Euros. Their sustainability program shall help to sustain or even increase their turnover which will have a positive effect on its profits, as REWE is convinced that to survive the fierce competition, sustainability is a crucial factor: *“Langfristig werden nur nachhaltig denkende und handelnde Unternehmen im immer schärfer werdenden Wettbewerb bestehen können. Wenn Preise nahezu gleich und Konzepte ähnlich sind, wird Nachhaltigkeit zu einem entscheidenden Profilierungsmerkmal.”*¹⁴⁴

Legal responsibilities require companies to obey the law. From an outside point of view it is hard to assess whether REWE lives up to these responsibilities. But one part of REWE's sustainability program is concerned with supporting the environment. REWE claims to cover nearly all of its energy demand through renewable energy.¹⁴⁵ REWE Group has also collected data about its greenhouse gas emissions, which it is trying to reduce by 30% until 2015.¹⁴⁶ As Germany has many environmental regulations¹⁴⁷, this could be an indicator that REWE's

¹⁴³ Buchholtz and Carroll, 2011, p. 34.

¹⁴⁴ Cf. REWE Group, 2011o, p. 3.

¹⁴⁵ Cf. REWE, 2011f.

¹⁴⁶ Cf. REWE Group, 2011b.

¹⁴⁷ The German 'Bundesumweltministerium' (BMU) counts 259 legal provisions (cf. Bundesministerium für Umwelt, Naturschutz und Reaktorsicherheit, 2011).

sustainability program helps REWE to fulfill its legal responsibilities. Furthermore, REWE has established a department for compliance that familiarizes employees with rules and regulations set by the government and the company as well as helping them to fulfill these rules.¹⁴⁸

The philanthropic responsibilities are also addressed in REWE's sustainability program. In chapter two, fulfilling philanthropic responsibilities is identified as engaging in voluntary activities that demonstrate goodwill or promote human welfare.¹⁴⁹ One of REWE's sustainability pillars is called 'Social Involvement'. Within this area REWE undertakes several programs, with a special focus on supporting children. One example is REWE's magazine for children called 'mampf'. Children learn to eat and live healthy through various games, reportages and puzzles. The magazine is free.¹⁵⁰ This is an example of promoting human welfare by educating children about a healthy lifestyle.

Ethical responsibilities, as defined in chapter two, demand corporations to do what is right, just and fair in the eyes of consumers, shareholders and the community.¹⁵¹ Part of REWE's sustainability program is to sell Fairtrade products.¹⁵² Fairtrade products have been produced and sold under fair trading conditions. They benefit the local community and bear growth potential as outlined in chapter three. Thus, offering Fairtrade products can be a way for companies to fulfill their ethical responsibilities. However, what does REWE's commitment to Fairtrade look like? Does REWE practice what it communicates and what conclusions can be drawn from these findings in regards to REWE and its sustainability program? This will be analyzed throughout the next parts.

4.3 Role of Fairtrade at REWE

REWE started to sell Fairtrade products in 1993. Since 2007, REWE offers roses carrying the FAIRTRADE certification mark. The product range of Fairtrade products at REWE includes: coffee, tea, chocolate, orange juice, roses and organic wine. Besides being a licensee of TransFair, REWE also buys Fairtrade products imported via GEPA to sell them in its REWE markets.¹⁵³ Strategically, Fairtrade belongs to the category 'Green Products', which represents one pillar in REWE's sustainability program. In its sustainability report of 2010, REWE Group emphasizes that within the area of 'Green Products' they see their responsibility in supporting fair working conditions. For this reason, it expects their suppliers to follow internationally

¹⁴⁸ Cf. REWE Group, 2011f, p. 17.

¹⁴⁹ Cf. Treviño and Nelson, 2011, p. 331.

¹⁵⁰ Cf. REWE, 2011c.

¹⁵¹ Cf. Buchholtz and Carroll, 2011, p. 35.

¹⁵² Cf. REWE, 2011b.

¹⁵³ Cf. REWE, 2011b.

accepted social standards. To ensure compliance with these standards, external audits inspect an increasing number of REWE producers.¹⁵⁴ In their *“guidelines for sustainable business practices”*¹⁵⁵, REWE Group formulates their values and describes what their business relationships shall look like in regards to the environment and the society. REWE Group also names the goal set together with its contract suppliers. This goal is to implement the sixth principle: *“We recognise our responsibilities and act sustainably”*¹⁵⁶ along the whole supply chain.¹⁵⁷ As REWE follows the strategic direction of REWE Group the ‘guidelines for sustainable business practices’ also apply to REWE. Fairtrade products as outlined in chapter three provide a way to show responsibility towards suppliers and help support sustainable development. Thus, Fairtrade is not just a way to fulfill ethical responsibilities, but it also contributes to reach the set goal of REWE Group and thus also of REWE and its contract suppliers, as communicated in ‘echo – Magazin der REWE Group.’

Therefore, the next part focuses on REWE’s participation in Fairtrade. This is an indicator for evaluating if REWE’s communication (i.e. communicating the selling of Fairtrade products publicly and through that expressing social responsibility¹⁵⁸) matches REWE’s action concerning its social responsibilities (i.e. REWE’s commitment to Fairtrade). For the analysis of REWE’s commitment to Fairtrade, the criteria defined for winning the Fairtrade Award are applied to REWE.

4.4 Applying the Fairtrade Award Criteria to REWE

TransFair introduced the Fairtrade Award in 2009. It serves as a platform for showing exemplary commitment to Fairtrade as well as providing inspiration for supporters of Fairtrade. The Award can be received in the categories of ‘industry’, ‘economy/trade’, ‘civil society’ and ‘newcomer’. To receive it, interested parties, including companies, organizations or private people, must apply on the TransFair website, answering several questions and providing information about their commitment to Fairtrade.¹⁵⁹ A company applying for the Award must have notably established, supported and communicated Fairtrade. In 2010, Omniflora received the Fairtrade Award in the category ‘economy/trade’. They managed to combine economic

¹⁵⁴ Cf. REWE Group, 2010b, p. 68.

¹⁵⁵ REWE Group, 2010a.

¹⁵⁶ REWE Group, 2011i.

¹⁵⁷ Cf. REWE Group, 2011h, p. 10.

¹⁵⁸ Cf. REWE, 2011b and cf. REWE Group, 2010b, pp. 68 & 76 and cf. REWE Group, 2011a, pp. 20 - 23.

¹⁵⁹ Cf. Fairtrade Deutschland, 2011a.

success with a socially and ecologically responsible way for the cultivation of flowers.¹⁶⁰ More winners of the Fairtrade Award can be found on the webpage of TransFair.¹⁶¹

For receiving the Fairtrade Award, TransFair has established the following criteria:

- 1. Long-term and continuous commitment**
- 2. Credible commitment**
- 3. Innovative role**
- 4. Specific support for suppliers**
- 5. Exceptional commitment in the area of trade**
- 6. Exceptional commitment concerning the publicity for Fairtrade**
- 7. Actual Commitment**
- 8. Vision for Fairtrade**

For each criterion, specific indicators have been established.¹⁶² If an organization, company or private person, wants to apply for the Fairtrade Award, the following procedure takes place:¹⁶³

- The applicant answers all questions on the application form.
- The application form is send to TransFair. The answers given in the application form are translated into a points-based system, ranging from 1 to 5. The points show to what degree the indicators are fulfilled, whereby a one is equal to 'the compliance with the indicator is very little' and a five means 'compliance with the indicator is completely given.' TransFair conducts further research for more information on the applicant's commitment to Fairtrade.
- Further points are given for additional activities of the applicant that supports Fairtrade. Visual application receives a bonus.
- On the basis of the points received for the application together with the information gained through the research of TransFair, the top five candidates are determined for each category.
- In a jury meeting, the Fairtrade Award Jury¹⁶⁴ decides about the weighting of the indicators. How the indicators are weighted depends completely on the jury. At the time of the research, there was no generally defined points-based system or something similar.

¹⁶⁰ Cf. Fairtrade Deutschland, 2011j.

¹⁶¹ Cf. Fairtrade Deutschland, 2011j.

¹⁶² Cf. Fairtrade Deutschland, 2011i.

¹⁶³ All information concerning the procedure is taken from E-Mail correspondence with TransFair in November 2011.

¹⁶⁴ In 2009, the Fairtrade Award Jury consisted of the TransFair Board of Directors. In 2010, the jury consisted of senior executives, the CEO of TransFair and the CEO of the Verband Entwicklungspolitik Deutscher Nichtregierungsorganisationen (VENRO). When their mandate ends, the jury will change. Furthermore, two journalists (one from a journal and one from a magazine) as well as members of the Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (BMZ), e.g. the state secretary, belong to the jury (cf. E-Mail correspondence with TransFair in November 2011.)

- The Fairtrade Award Jury then decides on the winners of the Fairtrade Award in each category.

This is the general procedure for the Fairtrade Award. The procedure applied in this analysis will vary from the general procedure, as an interview with REWE was turned down and thus important internal information needed for the application form and for some indicators is not available. Furthermore, as an outsider of TransFair, it is difficult to determine whether compliance with an indicator is very minimal or not, thus a points-based system cannot be applied. Additionally, the weighting of the indicators is done via the Fairtrade Award Jury. However, no specific information was provided concerning the weighting of the indicators applied for the Award in 2009 and 2010. Therefore, the evaluation of the criteria will be done by applying the indicators to REWE, based on information given in publicly available sources and information provided by TransFair. Furthermore, references will be made to former winners of the Award in the category 'economy/trade'. It should be noted, that the analysis does not aim to find out if REWE is possibly a Fairtrade Award winner, but it shall rather provide useful information and indications concerning REWE's commitment to Fairtrade.

Table 6 provides an overview of the criteria and the indicators established for the Fairtrade Award.

| Criteria | Indicators | Applied to REWE |
|---|--|---|
| 1. Long-term and continuous commitment | <ul style="list-style-type: none"> a) When was the license contract signed? b) When did co-operation start (license contract, being trained as a multiplier, etc.) c) First reference in public | <ul style="list-style-type: none"> a) Contract with TransFair was signed in March 2008¹⁶⁵ b) Co-operation probably started shortly after contract was signed, i.e. March 2008 c) REWE probably started to offer Fairtrade in 1993¹⁶⁶, maybe bought from GEPA as they started to sell Fairtrade products to supermarkets in 1992/93¹⁶⁷ |
| 2. Credible commitment | <ul style="list-style-type: none"> a) Commitment that goes beyond the contractual requirements b) Integration of Fairtrade into company's communication, respectively, engagement in civil society c) Specific use of Fairtrade material d) Participation at TransFair campaigns such as 'Faire Woche', 'Banana-Day', 'Frauentag', 'Fairtrade-Towns' e) Integration of Fairtrade products into a sustainable business, respectively, CSR strategy f) Training of employees in the area of Fairtrade g) Exemplary fulfillment of contractual agreements h) Co-operative annual meetings with TransFair i) Continually increasing the Fairtrade product range j) Participating at the Fairtrade-Code¹⁶⁸ | <ul style="list-style-type: none"> a) Cannot be assessed from an external point of view, as contractual details are not known b) No statement can be made as an outsider about the integration of Fairtrade into REWE's internal communication c) Assessment is not possible, as Fairtrade material is not defined in more detail d) REWE supported several TransFair campaigns during REWE's sustainability week from the 10th - 17th of September 2011.¹⁶⁹ They also took part in TransFair campaigns like 'Deutschlands fairste Azubis'¹⁷⁰ (FABI) and Kaffee.Pause.Fair.¹⁷¹ e) REWE has integrated Fairtrade products in its sustainability program¹⁷², which represents the integration of Fairtrade into REWE's business, respectively, CSR strategy. f) Internal information is needed for this assessment. g) Cannot be assessed from an external point of view as contractual details are not known. h) REWE and TransFair have several regular meetings during the year.¹⁷³ i) REWE expands its offer relatively often, especially in the area of REWE's own label, specifically under the brand 'REWE Bio'.¹⁷⁴ j) REWE partly participates at the Fairtrade-Code, as some of REWE's products, |

¹⁶⁵ Cf. E-Mail correspondence with Transfair in November 2011.

¹⁶⁶ Cf. Ramspeck, 2006, p.1.

¹⁶⁷ Cf. REWE Group, 2011e, p.44.

¹⁶⁸ The Fairtrade-Code gives consumers the opportunity to trace the product back to the country of origin and find out more about the producers, the partner companies and the impacts of Fairtrade (cf. Fairtrade Deutschland, 2011b).

| | | |
|---|--|--|
| | | found on TransFair's webpage, include a Fairtrade Code. ¹⁷⁵ |
| 3. Innovative role | a) Developing a new product or a new idea to <ul style="list-style-type: none"> • establish Fairtrade in a new target group • make Fairtrade more known and tangible to the public b) Integration of new producer groups or deepening of already existing trading contacts | a) No publicly available source provided any information concerning the development of a new product or a new idea by REWE. b) Publicly available sources gave no information about the integration of new producer groups, but REWE visited the Fairtrade coffee co-operative Incahuasi from Peru with whom they are working together. REWE aims for a long-term trading partnership with the Incahuasi. ¹⁷⁶ |
| 4. Special support for producers | a) Independent contact to the producer groups b) Financial support c) Supporting projects d) Granting pre-financing | a) REWE visited Incahuasi, the Fairtrade coffee co-operative in Peru. ¹⁷⁷ b) No assessment possible from an external point of view c) Cannot be assessed from an external point of view d) Cannot be assessed from an external point of view |
| 5. Exceptional commitment in the area of trade | a) Sales promotion (e.g. Point of Sale activities, participating in attractive promotional measures) b) Broad Fairtrade product line | a) At a football game (1.FC Köln – Borussia Dortmund ¹⁷⁸), a special catering of Fairtrade products was organized for fans of the REWE stand. ¹⁷⁹ During halftime TransFair showed a TV commercial for Fairtrade products and a huge Fairtrade banner hung on the South stand of the football stadium. ¹⁸⁰ b) REWE sells products bought from GEPA ¹⁸¹ and offers 22 products carrying the FAIRTRADE certification mark, including products sold under the REWE brand. ¹⁸² REWE plans to continually increase its Fairtrade product range. ¹⁸³ |

¹⁶⁹ Cf. Cf. Rewe, 2011e.

¹⁷⁰ Cf. Fairtrade Deutschland, 2011c, pp.1-3.

¹⁷¹ Cf. E-Mail correspondence with TransFair in November 2011.

¹⁷² Cf. REWE, 2011d.

¹⁷³ Cf. E-Mail correspondence with TransFair in November 2011.

¹⁷⁴ Cf. E-Mail correspondence with TransFair in November 2011.

¹⁷⁵ Cf. Fairtrade Deutschland, 2011k.

¹⁷⁶ Cf. Fairtrade Deutschland, 2011l.

¹⁷⁷ Cf. Fairtrade Deutschland, 2011l.

¹⁷⁸ REWE is a partner of Borussia Dortmund and main sponsor of 1.FC Köln (cf. FC.NEWS, 2011 and Borussia Dortmund, 2011).

¹⁷⁹ Cf. REWE Group, 2011d.

¹⁸⁰ Cf. REWE Group, 2011d.

¹⁸¹ Cf. REWE, 2011b.

¹⁸² Cf. Fairtrade Deutschland, 2011k.

| | | |
|---|--|--|
| | c) Specific means of communication common to trade | c) REWE communicates Fairtrade on its website, by participating in TransFair campaigns ¹⁸⁴ and by publishing reports in 'echo – Magazin der REWE Group'. ¹⁸⁵ Certain REWE supermarkets also promote Fairtrade by carrying out specific projects. ¹⁸⁶ |
| 6. Exceptional commitment concerning the publicity for Fairtrade | a) Participating in existing Fairtrade campaigns b) Setting up own campaign that focuses on the FAIRTRADE certification mark c) Communicating Fairtrade to customers | a) REWE participated in FABI and supported 'Kaffee.Pause.Fair.' as well as 'Faire Woche'. ¹⁸⁷ b) No information about such a campaign has been found in publicly available sources or provided by TransFair. c) Besides the above mentioned TransFair campaigns in which REWE participates, selected REWE retailers organize special events that further communicate Fairtrade to customers. ¹⁸⁸ |
| 7. Actual commitment | a) License contracts, persistent activities b) External reports, publications | a) REWE is a licensee of TransFair and offers products bought from GEPA. ¹⁸⁹ Since 2007, REWE offers Fairtrade roses that were imported via Omniflora. ¹⁹⁰ b) On the webpage of TransFair a publication of REWE and Fairtrade can be found ¹⁹¹ as well as in an article in 'Der Spiegel'. ¹⁹² |
| 8. Visions for Fairtrade | a) Future-oriented projects that realize Fairtrade concepts to ensure a long-term and sustainable improvement of the situation for producers | a) No information about future-oriented projects that realize Fairtrade concepts to support producers was found, neither in publicly available sources nor were they provided by TransFair. |

Table 6: Application of Fairtrade Award criteria to REWE

Source: Adapted from Fairtrade Deutschland, 2011g.

¹⁸³ Cf. REWE Group, 2011j, p.9 and cf. REWE Group, 2010b, p.76.

¹⁸⁴ Cf. REWE, 2011b.

¹⁸⁵ Cf. REWE Group, 2011d, p.80.

¹⁸⁶ An example for this is a REWE supermarket in Dortmund that installed a project for six-months. During this time five apprentices intensively dealt with Fairtrade with the objective of developing a new sales concept for a better representation of Fairtrade products in that supermarket. The project ended with a promotion for Fairtrade products (cf. REWE Group, 2011k, p.56).

¹⁸⁷ Cf. E-Mail correspondence with TransFair in November 2011.

¹⁸⁸ Cf. REWE Group, 2011d, p.80.

¹⁸⁹ Cf. REWE, 2011b.

¹⁹⁰ Cf. Fairtrade Deutschland, 2011f.

¹⁹¹ Cf. Fairtrade Deutschland, 2011f.

¹⁹² Cf. Ramspeck, 2006, p.96.

Now that all indicators have been applied to REWE, an evaluation of each criterion will follow. As mentioned earlier, the evaluation does not aim to find out whether REWE could win the Award or not, and therefore no points-based system will be used. The criteria rather serve as a basis from which conclusions about REWE's commitment to Fairtrade will be drawn, as this has been defined in chapter 4.2 as 'REWE's action concerning their social responsibility.'

4.5 Evaluating REWE's Participation in Fairtrade

Long-term and continuous commitment

REWE started to work with TransFair in 2008. J.J. Darboven who won the Fairtrade Award in 2009 in the category 'economy/trade' for manufacturers has been working with TransFair since 1993 and was the first branded article manufacturer working with TransFair.¹⁹³ In 2010, Omniflora won the Fairtrade Award in the category 'economy/trade'. They started to work with TransFair in 2003.¹⁹⁴ Compared to these two winners, REWE's long-term commitment to Fairtrade might be questioned. However, according to an article in 'Der Spiegel' in 2006, REWE was the first trade chain in Germany that offered Fairtrade coffee throughout its supermarkets in Germany.¹⁹⁵

Credible commitment

Due to lacking internal information, some indicators could not be applied to REWE. The publicly available sources as well as information provided by TransFair give some indication that REWE is committed to Fairtrade to a certain extent. Chapter 4.4 outlined that REWE takes part in several campaigns that promote Fairtrade, implemented Fairtrade in its business strategy, continually broadens its Fairtrade product range and partly participates in the Fairtrade-Code. Yet, only a few examples could be found for each indicator, which suggests that the criterion is not met. The Fairtrade Award winner in the category 'economy/trade' in 2009, Dennree, provides further proof for this assumption. Denn's Biomärkte, which belong to Dennree, implemented a project following the 15th anniversary of TransFair. For 15 weeks, Denn's Biomärkte collected 15% of the turnover made by Fairtrade products and donated that amount (8,000 Euros) to Oromia, a coffee co-operative in Ethiopia. The donation is used for financing a water project initiated by Oromia.¹⁹⁶ No information could be found about REWE undertaking a similar project for supporting its producers financially on a large scale.

¹⁹³ Cf. FairtradeDeutschland, 2011a.

¹⁹⁴ Cf. FairtradeDeutschland, 2010b.

¹⁹⁵ Cf. Ramspeck, 2006, p.96.

¹⁹⁶ Cf. FairtradeDeutschland, 2011b.

Innovative role

No information could be found publicly for the first indicator. For the second indicator information was found on the website of TransFair.¹⁹⁷ There it is stated that REWE wants to establish a long-term trading partnership with the Incahuasi, a coffee co-operative in Peru and supplier for REWE. Yet, considering the number the suppliers of REWE, this effort seems like a drop in the bucket.

Special support for producers

REWE visited the above mentioned coffee co-operative Incahuasi, which can be seen as a way of seeking independent contact to producer groups. No publicly available information was found concerning the remaining indicators for this criterion. Therefore, due to the little information given, it can be said that REWE does not seem to support its producers in a special way.

Exceptional commitment in the area of trade

The sales promotion carried out during the football game 1.FC Köln – Borussia Dortmund, is a good example for a sales promotion for Fairtrade products, yet it was also the only example found in public sources. To evaluate the Fairtrade product range at REWE, more information concerning the correct number of Fairtrade products offered at REWE would be needed. Furthermore, the product range might differ from supermarket to supermarket due to the co-operative structure in which REWE is organized.¹⁹⁸ Even though no definite statement can be made about the Fairtrade product range at REWE currently, it is likely that it will be expanded in the future, as this is part of REWE Group's sustainability strategy.¹⁹⁹ Information about specific means of communication common to trade could not be found. As indicated in chapter 4.4, REWE communicates Fairtrade via usual ways including the internet, REWE Group's magazine 'echo' or via participating in Fairtrade campaigns. It can be said that REWE shows a certain commitment in the area of trade, but more evidence would be needed to support this statement.

Exceptional commitment concerning the publicity for Fairtrade

REWE took part in several TransFair campaigns, e.g. FABI. REWE also supported events held at the 'Faire Woche', like 'Kaffee.Pause.Fair'. Selected retailers further organize special events concerning Fairtrade such as the promotion of Fairtrade via a football game²⁰⁰ or by initiating a project in which apprentices deal intensively with the promotion of Fairtrade

¹⁹⁷ Cf. Fairtrade Deutschland, 2011l.

¹⁹⁸ Cf. REWE, 2011a.

¹⁹⁹ Cf. REWE Group, 2010b, p. 76.

²⁰⁰ Cf. REWE Group, 2011d, p. 80.

products.²⁰¹ This shows that REWE communicates Fairtrade to customers. Yet, how often such events are organized is unknown. As the application of the indicators shows, not a lot of information on REWE's commitment to publicly communicating Fairtrade could be found. One might thus assume that an **exceptional** commitment to communicating Fairtrade publicly is not the case for REWE.

Actual commitment

The first indicator for this criterion is the number of license contracts and persisting activities the applicant has concerning Fairtrade. REWE is a licensee of TransFair²⁰² and sells Fairtrade products bought from GEPA²⁰³ and Omniflora.²⁰⁴ REWE might buy Fairtrade products from other Fairtrade importers or manufacturers and thus it is difficult to estimate the number of license contracts REWE has for Fairtrade products. Concerning persistent activities for Fairtrade, no statement can be made. External reports and publications are a further indicator for measuring the actual commitment to Fairtrade. Publications and external reports about REWE and Fairtrade were very rare as only two examples could be found.²⁰⁵ It is difficult to assess REWE's actual commitment to Fairtrade as not enough information is available. But in regards to the information provided for the second indicator, REWE's actual commitment to Fairtrade seems to be limited.

Visions for Fairtrade

This criterion cannot be assessed from an external point of view, as information concerning future projects that realize Fairtrade concepts is not publicized.

What does REWE's commitment to Fairtrade look like as a whole then? The analysis does not provide a final answer to this question due to restricted availability of information. Yet, some conclusions about REWE's commitment can be drawn from the analysis.

For several criteria one or two examples were found that give a positive indication concerning the criteria. REWE thus shows some extent of commitment to Fairtrade. Some criteria are difficult to assess as REWE is organized as a co-operative. This also implies that the commitment to Fairtrade of individual supermarkets may vary. For example, supermarkets in the region around Dortmund have shown some effort regarding Fairtrade.²⁰⁶ It was interesting to see that only little information for the criterion 'exceptional commitment concerning the publicity for Fairtrade' was found. GEPA, who won the Fairtrade Award in 2009 in an extra category called 'special achievements', has set an example concerning communicating

²⁰¹ Cf. REWE Group, 2011k,

²⁰² Cf. Fairtrade Deutschland, 2011k.

²⁰³ Cf. REWE, 2011b.

²⁰⁴ Cf. Fairtrade Deutschland, 2011f.

²⁰⁵ Cf. Fairtrade Deutschland, 2011f and cf. Ramspeck, 2006, p. 96.

²⁰⁶ Cf. REWE Group, 2011k, p. 56. and cf. REWE Group, 2011d, p. 80.

Fairtrade to the public. Their campaign 'Jute statt Plastik' was a great success and they contributed to a large extent to make Fairtrade known to the public.²⁰⁷ No references were found concerning similar projects that REWE has initiated to support Fairtrade.

Lastly, the lack of external reports and publications concerning REWE and Fairtrade suggest that REWE is only superficially committed to Fairtrade. The difficulty of getting information concerning REWE and Fairtrade further supports this statement.

However, additional studies that compare REWE's efforts to that of other supermarkets, also including supermarkets abroad, could provide more information as well as a different perspective to REWE's commitment to Fairtrade. A particular focus of such a research could be put on mark-ups that supermarkets charge for Fairtrade products. For example, supermarkets in the UK were found to charge huge mark-ups, thus increasing their margins, while enhancing their reputation as *"good corporate citizens."*²⁰⁸

The last chapter sums up what has been found so far. Furthermore, some general conclusion concerning REWE and its CSR will be made. The analysis ends with further thoughts on companies and their CSR effort.

²⁰⁷ Cf. Fairtrade Deutschland, 2011g.

²⁰⁸ Crane and Matten, 2010, p. 436.

5 Conclusion

As stated in the beginning of the analysis, Alain Caparros pictures a new type of competition based on trust, namely consumer's trust. To gain this trust, companies need to act responsibly and talk about it.²⁰⁹ Acting responsibly implies taking responsibility. In chapter two it has been argued that companies are expected to take responsibility that goes beyond what the law requires.²¹⁰ In this context CSR, a concept for taking social responsibility has been introduced. The concept defines four types of responsibilities that all together make up a company's total social responsibility. The four types of responsibility are: economic responsibilities, legal responsibilities, ethical responsibilities and philanthropic responsibilities.²¹¹ One way for a company to fulfill its ethical responsibilities is through offering Fairtrade products as outlined throughout chapter three. In 1993, REWE decided to add Fairtrade coffee to its product range. It was the first trade chain that added Fairtrade coffee to its product range throughout Germany.²¹² Nowadays, Fairtrade is an integrated part of REWE's sustainability program – REWE's expression of fulfilling its CSR. This program is strongly communicated on REWE's website,²¹³ in the sustainability report of REWE Group²¹⁴ and in 'echo – Magazin der REWE Group'.²¹⁵ As the objective of the analysis is to find out whether REWE's communication of its social responsibility matches its action, REWE's participation in Fairtrade has been analyzed in chapter four. REWE's action concerning its social responsibility has been defined as its commitment to Fairtrade. This commitment was evaluated based on the criteria established in the Fairtrade Award. The analysis showed that no final conclusions could be made about REWE's commitment to Fairtrade and strong evidence for a 'true' commitment of REWE to Fairtrade was not found. Does this imply that REWE's communication of CSR and its action concerning CSR do not match?

To answer this question further research needs to be conducted that takes all the various aspects of REWE's sustainability program into account. Useful information for this research could be provided by conducting a consumer survey about their perception of REWE as a sustainable company. Questionnaires about the communication of sustainability inside REWE could be handed out to REWE's employees. This would provide reliable information concerning REWE's commitment to its sustainability program. Up to this point no final statement can be made if REWE's communication of CSR matches its action.

²⁰⁹ Cf. Cies: The Food Business Forum, 2008b.

²¹⁰ Cf. Buchholtz and Carroll, 2011, p.34.

²¹¹ Cf. Buchholtz and Carroll, 2011, pp. 37 - 39.

²¹² Cf. Ramspeck, 2006, p. 96.

²¹³ Cf. REWE, 2011d.

²¹⁴ Cf. REWE Group, 2010b.

²¹⁵ Cf. REWE Group, 2011j.

As pointed out in this analysis it is very difficult to assess a company's CSR efforts. This is partly due to a lack of information or the difficulty of finding reliable information. On the other hand, CSR itself is a contested concept²¹⁶ and has been defined in many different ways.²¹⁷ For evaluating a company's CSR efforts it might also be interesting to take a closer look at the motivation of a company to engage in CSR. Is the company driven by enhancing its reputation and creating a better image? Does the company participate in CSR as consumers demand them to do so? Is the company engaging in CSR to gain a competitive advantage?²¹⁸ Finding out about the company's motivation behind CSR, will give useful information concerning its CSR efforts.

Therefore, further research needs to be conducted for gaining a deeper insight into the question whether companies' communication about their CSR efforts matches their actions.

²¹⁶ Cf. De George, 2010, p.204.

²¹⁷ Cf. Carroll, 1999, pp. 268 - 296.

²¹⁸ Cf. Crane and Matten, 2010, p. 51.

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